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**INTERNATIONAL HARVESTER
CANADA**

Annual Report 1976



INTERNATIONAL HARVESTER CANADA

General Offices: 208 Hillyard Street, Hamilton, Ontario, L8N 3S5

Annual Report 1976

The fiscal year ended October 31, 1976



International Harvester people and products served in several ways to help stage the 1976 Olympic Games.

The Company was selected as the official supplier of agricultural equipment. In the photograph above, IH tractors and floats are being used to move equipment between events.

Solar Gas Turbines supplied and installed seven 900-kilowatt generator sets at the Olympic Games complex. These units furnished prime power for the stadium, swimming and diving arena and the velodrome.

Our cover photograph, shows the array of Olympic and world flags at the site of the Games.

Ce rapport est publié en français et en anglais. Si vous préférez un exemplaire français, veuillez écrire au Directeur des Relations publiques de la compagnie.

Financial Highlights

(fully consolidated basis)

	1976 Dollar amounts in thousands	1975 Dollar amounts in thousands
Sales	\$714,988	\$713,994
Net Income	\$ 20,824	\$ 22,109
Return on Sales	2.91%	3.10%
Return on Shareholders' Equity*	14.72%	16.51%
Dividends Paid	\$ 11,700	\$ 14,600
Income Retained	\$ 9,124	\$ 7,509
Taxes — Federal, Provincial and Local	\$ 29,250	\$ 33,694
Depreciation and Amortization	\$ 6,188	\$ 5,556
Capital Expenditures	\$ 10,849	\$ 10,807
Long-term Debt	\$120,336	\$113,971
Shareholders' Equity at End of the Year	\$150,549	\$141,425
Average Number of Employees (Canada)	6,556	7,120

*at beginning of the year

Directors and Officers

at October 31, 1976

Board of Directors

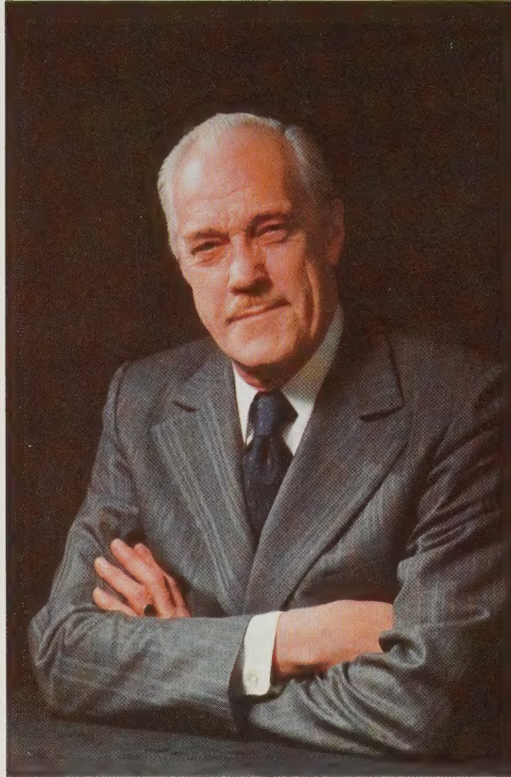
Charles C. Brannan	Earle L. Edmonds
William E. Callahan	William R. Fleming
Paul B. Carter	Joseph A. Hart
Thomas L. Dougherty	W. Norman Smith

Officers

W. Norman Smith	<i>President</i>
William R. Fleming	<i>Executive Vice President</i>
Paul B. Carter	<i>Vice President, Finance</i>
Thomas L. Dougherty	<i>Vice President, Marketing</i>
Joseph A. Hart	<i>Vice President, Manufacturing and Employee Relations</i>
Edward R. Griffith	<i>Treasurer</i>
William R. Ofield	<i>Comptroller</i>
Vernon D. Sykes	<i>Secretary</i>

Other Executives

Charles W. Wolfard	<i>Director, Project Planning</i>
W. Norman Buckingham	<i>Manager, Public Relations</i>
John E. Colby	<i>Manager, Supply and Inventory</i>
T. Donald Husband	<i>Manager, Truck Marketing</i>
Charles J. Munro	<i>Manager, Agricultural Marketing</i>
Ronald E. Penfold	<i>Manager, Engineering</i>
Donald A. Thorsell	<i>Manager, Sales Finance</i>
John L. Wade	<i>Manager, Pay Line Marketing</i>



President's Letter

The Company experienced a successful year in 1976, despite the adverse conditions that prevailed in several of our key markets and in the general economy.

Sales of \$714 million slightly exceeded those of the previous year which had been an all-time record. Our 1976 net income was somewhat reduced.

As in many other years, opportunities varied throughout our major markets. Sales of Scout four-wheel-drive vehicles responded to the continuing growth in the recreational vehicle market. On the other hand, the effect of the economy on truck transportation produced a lower demand for medium and heavy-duty vehicles. In these two very competitive markets we maintained our participation in the medium range and showed a marked improvement in the heavy-duty class.

During 1976, the construction industry felt the effects of economic restraints. Curtailment of activity in both the public and private sectors brought a reduced demand for the Company's Pay Line construction equipment and trucks.

The forest industries were similarly affected by general economic conditions both in Canada and in the export markets. Although a gradual recovery appears to be underway, this was not reflected in the 1976 demand for the equipment we supply to these industries.

A buoyancy in agriculture counterbalanced the less positive climate in our other major markets. Sales of agricultural equipment continued at a high level for the fourth consecutive year. We increased our participation in total industry sales and considerable improvement was obtained in our market share of tractors and combines.

Our ability to compete successfully in the many markets we serve is due, in large part, to the strength and effectiveness of our dealers and distributors. Their support in marketing our products and services and in developing new opportunities is vital to our continued success.

It is evident that in 1977, the Company's opportunities will again vary from market to market. We do not foresee a strong surge in demand for trucks, construction or woodland equipment. There are indications of continuing strength in the agricultural equipment market, although it is unlikely that the demand will remain at the recent high level.

Exports offer the Company one of its greatest opportunities for 1977 and beyond. Approximately two-thirds of our Canadian production is exported to the United States and to an increasing number of overseas countries.

Looking to our world markets, several significant steps have been taken which we believe will help us achieve greater participation. Our marketing organization has been strengthened. We are actively promoting sales of our log skidders and specialized heavy-duty Pacific trucks. In agricultural equipment, we have expanded the range of products manufactured at our Hamilton Plant; and, with a view to maintaining our competitive position in all markets, we have made substantial investments in highly productive plant equipment.

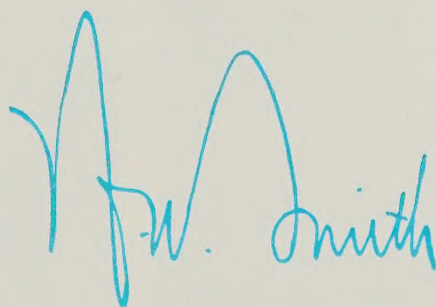
While our ability to compete at home and abroad is of vital importance to us as a company, the ability of Canadian industry to compete successfully in the global marketplace is of crucial importance to the economic health of the nation. It is evident that Canada's production costs are increasing

at a faster rate than in other industrialized nations and this makes it most important that government maintain a positive climate for business and industry. There must also be incentive to invest in plant facilities that will improve Canada's productivity.

Our Company maintains a long-range plan with built-in flexibility for quick response to changing conditions. However, economic uncertainties make effective planning increasingly difficult. A progressive step at this time would be a clear statement of intended government policy for the period following the lifting of the anti-inflation controls.

Canadians share an opportunity that few other countries can equal. To fulfill this potential we must have a positive course that we can follow with a spirit of purpose and commitment.

On behalf of the Directors, I would like to express appreciation to our employees, dealers and distributors for their many contributions during the past year. I also want to thank our customers for their continuing confidence.



W. N. Smith

Planning for the Future

In an organization as diverse as International Harvester Canada, planning for the future is an important and ongoing process. It encompasses human resources, facilities, product development, manufacturing, distribution and marketing. Through such planning we intend to maintain our strength as a vigorous business enterprise and to meet our goals and commitments.

The planning process covers the development of strategies for each major area of our business.

Plans related to human resources are of high priority. Many programs, including Manpower and Career Path planning, are supported by development and training courses.

In manufacturing, we are spending large sums of money for machine tools and equipment as well as for modernization of our manufacturing processes to allow us to meet competitive manufacturing costs.

Expenditures for engineering and product development not only provide for a continuing leadership role in traditional markets but also for the expansion of our product lines.

Additional investment in International Harvester Credit Corporation of Canada Limited plus expanded long-term borrowing by that Corporation, will provide the base for increased financial services. The services supplied by IHCC include both floor plan financing for dealers and distributors and retail financing for our customers.

Sales of Solar Gas Turbines for stand-by power units and for use in the gas and petroleum industries have been encouraging. But looking to the future, the greatest opportunities will come with the development of major natural gas and oil projects.

The overall success of our business is dependent on the continuing development and growth of a strong dealer and distributor organization that is supported by company resources.

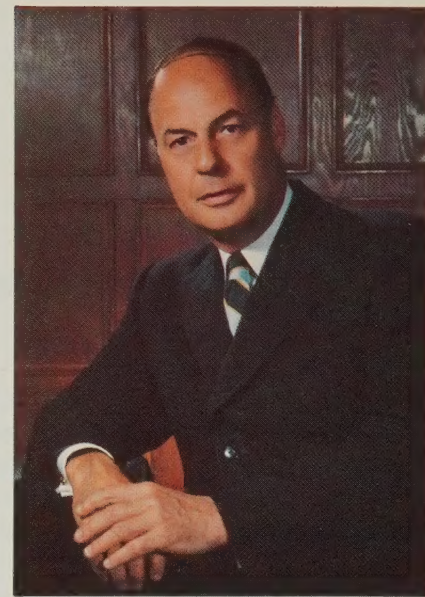
To this end, and to assure our ability to compete successfully in both the export and domestic markets, we have made several notable changes in our marketing organization.

The construction and industrial equipment sales departments were combined to form Pay Line Sales. This was a logical move in line with market trends. With the expansion of the industrial equipment line in recent years, several of these products were more properly classified as construction equipment. In addition, many of our customers use products from the full range of equipment that we supply. Equally important, the creation of Pay Line Sales allowed us to add new depth to every aspect of the marketing function to better serve our distributors and customers.

In another major organizational step, we established the National Marketing Office in Burlington, Ontario where our three principal sales departments — Truck, Agricultural and Pay Line — are located, together with their marketing support groups. These latter functions include market research, business development, promotion and advertising, sales finance and sales accounting. This new office allows for efficient communications and the most effective use of time and resources.

Finally, we established the Export and Government Sales Department, with offices in Ottawa. Two formerly separate departments were merged to provide a totally integrated service for these important areas of our business. Experienced sales management is supported by product specialists and technical advisors.

Our future development and growth is directly related to the key industries that use our products and services. The following pages outline certain aspects related to four of those industries.



William R. Fleming

The Company introduced the Pro-Ag series of agricultural tractors featuring a new control centre in late 1976. This high performance 1086 model is pulling a large capacity grain drill manufactured at our Hamilton plant.



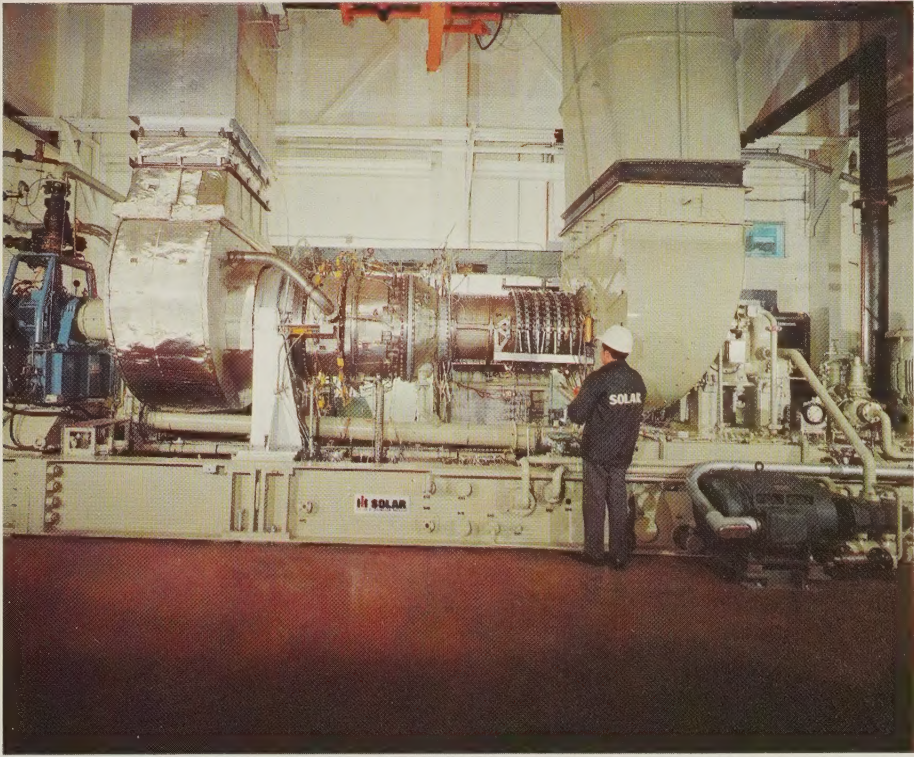


Used in a wide variety of applications, International crawler tractors have earned a reputation for productivity and reliability in forestry operations.

Built with similar features to the big agricultural tractors, Cub Cadet lawn and garden equipment is designed for efficiency and easy operation.

The Transtar II model is a familiar sight on highways across Canada. This vehicle is designed to meet individual customer specifications and can be adapted to a wide range of hauling applications.

Solar, IH's gas turbine operation, has developed a new 10,000 horsepower gas turbine natural gas compressor. The first Mars unit, shown here in the test stage, will be installed in 1977 at Alberta Gas Trunk Lines' Nordegg compressor station, as part of a fuel conservation program.



Truck Transportation

The trucking industry and the vital services it provides continues to grow in importance to all Canadians. In total there are now well over two million trucks registered in Canada, a 60 per cent increase over the past decade.

The "for-hire" carrier section of the industry, grossing over \$3 billion, employs 150 thousand people and additional thousands are employed in the private truck operations of manufacturers, distributors and many other businesses.

Although trucks join with other transportation modes in serving major cities, there are 14,000 Canadian communities that depend solely on truck transportation. In Ontario alone, 70 per cent of the towns and cities that are served by "for-hire" carriers are totally dependent on trucks.

The trucking industry is well aware of its expanding responsibilities and changing needs. Computers have a growing role in scheduling and cost control. Marketing specialists provide customers with transportation services matched to specific needs. Today's truck driver is regarded as a professional, in whose care is entrusted highly valuable equipment and cargo.

The pace of change in the industry is being reflected in truck design. Major emphasis is on energy conservation, safety, driver comfort and efficiency.

Compliance with government regulations is a major factor for both the manufacturer and the truck user. These requirements influence design, engineering efforts and the ultimate cost of the vehicle as well as the operation of it. In the formation and adoption of future legislation the essential role of truck transportation must be fully recognized.

Agriculture

Food production is appropriately called Canada's basic industry. With fewer than five per cent of Canadians now working on the land, the trend continues to larger farms lending themselves to highly productive methods and equipment.

Every Canadian benefits from this improved productivity as we spend a smaller percentage of the family budget on food than almost anyone else in the world.

Today's farmer must be a highly efficient businessman. Long range planning is as vital in agriculture as in any other industry. He must consider fluctuations in market demand, prices and costs — to say nothing of the uncertainties of weather.

In line with his needs, the farmer has been quick to adopt new methods and innovations that will reduce his production costs.

Recent years have shown a rapid increase in the use of more powerful tractors and matching equipment. As a manufacturer, we work closely with users in designing and testing new equipment which will handle more acres in less time. Safety factors receive prime consideration, along with operator comfort and convenience.

In the process of designing, distributing and servicing equipment for the agricultural industry, the dealer is a most important member of what can truly be called a three-way partnership.

When we consider the growth in world population, the importance of a sufficient supply of food cannot be overestimated. To meet this need, it is essential that our farmers, ranchers and other food producers receive a fair return on their investments.



International Harvester employees across Canada are involved in many community activities. The scene is the start of an employee "Scout Rally" in Hamilton. This highly successful annual event is organized to raise funds for a summer camp for the mentally retarded.

A new series of high capacity forage harvesters was introduced in 1976. Both the 720 and 830 models feature remote electric controls and can be equipped with row-crop or pickup attachments. These machines, as well as many other agricultural products are produced at Hamilton Plant for worldwide International Harvester requirements.

Pacific Truck & Trailer Ltd. manufactures specialized heavy-duty vehicles in Vancouver for world markets. Shown here is a Pacific hauling a load of sugar cane in Hawaii.

A refuse disposal unit is only one of many applications for the versatile Cargostar model, built at our Chatham, Ontario plant.

The Loadstar truck, also built in Chatham, is popular with Canada's farmers and ranchers.

The Bigroll baler is an efficient, labor-saving system for harvesting hay. The unit is capable of producing six-foot diameter bales, five feet wide, which can hold up to 1,500 pounds of hay.

In 1976, the Company introduced a new line of windrowers, designed for efficient and reliable harvesting of hay, grain and specialized crops. Full production at Hamilton Plant followed several years of research and testing on farms throughout Canada and the United States.







Export shipments during 1976 included a fleet of Loadstar trucks for the Cameroon Republic, Africa. Shown here is one of the vehicles being unloaded on arrival.

Canada's mining and resource industries require rugged and thoroughly reliable equipment, designed for highly specialized jobs. In this operation, an International Pay loader and a Pay hauler work as a team.

The Canadian forestry industry relies on highly productive equipment such as the Pay logger, manufactured in Candiac, Quebec. A new series of Pay loggers, with either grapple tongs or cable winch, was recently announced.

The excavator with tree shear attachment has become an important piece of equipment for Canada's forest industries.

Backhoe loaders, essential to the construction industry, are part of the wide range of Pay Line equipment.

Engineered and built for the construction industry, the rugged, heavy-duty Paystar diesel truck is used for on or off-highway applications.

Construction

During 1976, activity in the construction industry was at a low level. Little change is predicted for 1977 with a gross volume of \$35 billion. Stimulation of the economy is required to reactivate this important industry that provides employment for 600 thousand people.

In residential housing, new starts in 1976 were close to 270 thousand, probably a record year. A 15 per cent reduction is indicated for 1977. It is hoped that a trend to lower mortgage rates will produce greater activity than the current projection indicates.

Engineering construction projects are generally among the last to be affected by major economic trends as long range planning and investments are required to generate real growth in this level of the industry. Among the most promising prospects on the horizon are energy related projects in the fields of exploration, development and transmission.

In surface mining, coal production will continue to expand and the development of a number of new projects will take place in 1977. Although metal mining outputs will probably increase by 20 per cent, this sector will still not be working to full capacity.

There is some evidence of renewed activity in the commercial and industrial sectors, but institutional construction, related primarily to government expenditures, is expected to show little improvement.

Key objectives of the construction industry are cost control and increased productivity. To this end, larger, more reliable construction equipment and trucks are playing an important part.

Forest Industries

Forestry, one of Canada's largest employers and exporters has yet to recover from the effects of several very difficult years. At the same time, the long-term outlook is promising. World demand for wood products is expected to increase 50 per cent by the year 1990.

There are some signs that market conditions are improving. A decline in interest rates and a reduction of the value of the Canadian dollar are encouraging indicators for the export markets. But our forest industries have a major challenge in responding to these opportunities. High labor costs, taxes and transportation expenses pose serious difficulties.

Our forest industries are exceptionally dependent on exports. For example, 70 per cent of their 12 million ton annual newsprint production goes to the United States.

Canada still has large forest tracts awaiting development. But they are increasingly difficult and costly to harvest.

To a large extent, the future of the industry will depend on high-yield regeneration programs. The development of hybrids using native Canadian and European trees, and controlled planting concepts in place of natural regeneration, will produce higher yield crops in less time. A growth cycle of up to 80 years requires a long-range view in setting government priorities for such projects.

The use of highly productive equipment and the adoption of modern harvesting systems are essential in present and future operations.



INTERNATIONAL HARVESTER COMPANY OF CANADA, LIMITED and Subsidiaries

Consolidated Statement of Income and Income Retained

For the Years ended October 31, 1976 and 1975

	1976 in thousands	1975 in thousands
Sales and Other Revenues		
Sales:		
Canadian operations to —		
Dealers and users in Canada	\$463,201	\$427,777
International Harvester Company	162,741	187,984
Other affiliated companies and jobbers	3,881	13,719
	<u>629,823</u>	<u>629,480</u>
Seddon Diesel Vehicles Limited	85,165	84,514
	<u>714,988</u>	<u>713,994</u>
Finance operations revenue	23,253	21,142
	<u>738,241</u>	<u>735,136</u>
Costs and Expenses		
Cost of sales	624,665	616,160
Marketing and administrative expenses	51,764	47,263
Interest expense (including long-term of — 1976, \$12,349 ; 1975, \$8,508)	28,622	24,685
Sundry deductions less other income	(4,735)	4,045
Provision for income taxes:		
Current	11,998	16,195
Deferred	5,103	4,679
	<u>717,417</u>	<u>713,027</u>
Net Income	<u>20,824</u>	<u>22,109</u>
Dividends Paid	<u>11,700</u>	<u>14,600</u>
Income Retained — for the year	9,124	7,509
— at beginning of the year	126,425	118,916
— at end of the year	<u>\$135,549</u>	<u>\$126,425</u>

The accompanying Summary of Accounting Policies and Notes are an integral part of this statement.



INTERNATIONAL HARVESTER COMPANY OF CANADA, LIMITED and Subsidiaries

Consolidated Statement of Financial Condition

October 31, 1976 and 1975

Assets	1976 in thousands	1975 in thousands
Current Assets		
Cash	\$ 152	\$ 398
Notes receivable (note 1)	171,880	149,515
Accounts receivable — less allowances	36,225	44,251
Accounts receivable from affiliated companies	1,301	9,689
Deferred income taxes	1,645	1,970
Inventories (note 2)	122,196	134,173
Total Current Assets	333,399	339,996
Notes Receivable, Long-term (note 1)	122,494	88,836
Property, Plant and Equipment at cost, less depreciation and amortization (note 3)	50,938	50,222
Other Assets	13,098	9,868
Total Assets	<u>\$519,929</u>	<u>\$488,922</u>
Liabilities and Shareholders' Equity		
Current Liabilities		
Bank indebtedness	\$ 7,604	\$ 5,362
Notes payable — banks	26,690	54,192
Notes payable — commercial paper	126,164	101,810
Current maturities of long-term debt	17,054	8,527
Current invoices, payrolls and accruals	56,857	51,450
Accrued taxes	1,549	3,006
Accounts payable to affiliated companies	1,881	2,712
Total Current Liabilities	237,799	227,059
Long-term Debt (note 4)	120,336	113,971
Deferred Income Taxes	11,245	6,467
Shareholders' Equity		
Capital stock — authorized, issued and fully paid — 150,000 common shares of \$100 par value	15,000	15,000
Income retained	135,549	126,425
Total Shareholders' Equity	150,549	141,425
Total Liabilities and Shareholders' Equity	<u>\$519,929</u>	<u>\$488,922</u>

Approved by the Board: W. N. Smith, *Director*
P. B. Carter, *Director*

The accompanying Summary of Accounting Policies and Notes
are an integral part of this statement.

**Consolidated Statement of Changes in Financial Position**

For the Years ended October 31, 1976 and 1975

	1976 in thousands	1975 in thousands
Source of Working Capital		
Net income	\$ 20,824	\$ 22,109
Items not affecting working capital:		
Depreciation and amortization	6,188	5,556
Deferred income taxes	4,778	5,174
Other	337	238
Working Capital Provided from Operations	32,127	33,077
Property disposals	3,945	560
Increase in long-term debt	6,365	42,262
Other — net	—	60
Total Source	42,437	75,959
Application of Working Capital		
Capital expenditures:		
Canadian facilities	9,989	7,918
Equipment for lease	202	564
Seddon Diesel Vehicles Limited	658	2,325
Total Capital Expenditures	10,849	10,807
Dividends paid	11,700	14,600
Increase in notes receivable, long-term	33,658	9,360
Other — net	3,567	—
Total Application	59,774	34,767
(Decrease) Increase in Working Capital	(17,337)	41,192
Working Capital — at beginning of the year	112,937	71,745
— at end of the year	\$ 95,600	\$112,937
Changes in Working Capital		
Cash	\$ (246)	\$ 250
Notes and accounts receivable	5,951	41,150
Deferred income taxes	(325)	495
Inventories	(11,977)	2,337
Bank indebtedness	(2,242)	823
Notes payable — banks and commercial paper	3,148	(9,564)
Current maturities of long-term debt	(8,527)	(2,992)
Current invoices, payrolls and accruals	(5,407)	4,492
Accrued taxes	1,457	4,203
Accounts payable to affiliated companies	831	(2)
(Decrease) Increase in Working Capital	\$ (17,337)	\$ 41,192

The accompanying Summary of Accounting Policies and Notes are an integral part of this statement.

Notes to Consolidated Financial Statements

	1976 in thousands	1975 in thousands
1. Notes Receivable		
Notes receivable — wholesale	\$111,168	\$ 84,168
— retail	213,825	181,108
Unearned finance charges	(27,900)	(23,581)
Allowance for doubtful notes, deferred discounts and trade allowances	(2,719)	(3,344)
Total Notes Receivable	294,374	238,351
Less current portion	171,880	149,515
Notes Receivable, Long-term	\$122,494	\$ 88,836
2. Inventories		
Finished goods	\$ 70,560	\$ 74,680
Raw materials and supplies	35,619	44,135
Work-in-process	16,017	15,358
Total Inventories	\$122,196	\$134,173
3. Property, Plant and Equipment		
Buildings, machinery and equipment at cost:		
Manufacturing	\$ 64,017	\$ 59,372
Distribution	19,960	19,738
Other	9,228	11,594
	93,205	90,704
Less accumulated depreciation	52,558	51,137
	40,647	39,567
Tooling and pattern equipment at cost, less amortization	5,163	4,079
Land at cost	5,128	6,576
Net Property	\$ 50,938	\$ 50,222
4. Long-term Debt		
International Harvester Company of Canada, Limited		
Medium-term Notes, Series A, due 1977 to 1979 with interest at 10½% payable semi-annually	\$ 24,000	\$ 25,000
Subsidiaries		
Senior Indebtedness, Series A to D debentures and notes due 1977 to 1993 with interest at rates from 5¾% to 12½%, payable annually, semi-annually and monthly	91,503	74,021
Subordinated Indebtedness — notes, due 1977 to 1984, with interest at rates from 6% to a specified percentage over the Canadian bank prime rate for commercial loans, payable semi-annually, quarterly and monthly (includes \$6,600,000 U.S. funds due to affiliates)	21,818	23,111
Other long-term obligations — 7% debenture and 7¾% mortgage loans payable to 1991, and a 1977 6% debenture — all secured by subsidiaries' assets	69	366
	137,390	122,498
Less current portion	17,054	8,527
Long-term Debt	\$120,336	\$113,971

The aggregate amount of payments required in each of the next five years to meet sinking fund and retirement provisions of the notes and debentures are: 1977, \$17,054,000 ; 1978, \$6,106,000 ; 1979, \$20,600,000 ; 1980, \$11,600,000 ; 1981, \$33,000,000.

Covenants attached to the 10½% Medium Term Notes, Series A restrict the distribution of earnings subsequent to November 1, 1973 to not more than 60% of consolidated net earnings available for distribution.

5. Retirement Plans

The Company has retirement plans in effect for eligible salaried and hourly rated employees. Total pension expense for 1976 was \$6,892,000 (1975 — \$6,626,000). Pension costs are computed on the basis of accepted actuarial methods and include amortization of past service costs. Past service pension costs of \$34,820,000 (1975 — \$35,260,000) which have not as yet been charged to operations will be amortized over the period to 1989. Approximately 95% of these past service costs relate to vested benefits.

6. Statutory Information

The remuneration to directors and senior officers as defined in the Business Corporations Act, Ontario, for the year ended October 31, 1976 amounted to \$461,000 (1975 — \$440,000).

7. Contingent Liabilities

The Company sold certain notes of its finance subsidiary, International Harvester Credit Corporation of Canada Limited, to banks with settlement of these notes guaranteed by the Company.

Summary of Accounting Policies

Basis of Consolidation

The accompanying financial statements include the accounts of International Harvester Company of Canada, Limited and its wholly-owned subsidiaries, Pacific Truck & Trailer Manufacturing Ltd., Seddon Diesel Vehicles Limited, Harcan Leasing Limited and International Harvester Credit Corporation of Canada Limited on a fully consolidated basis.

The Consolidated Statement of Financial Condition contains the assets and liabilities of Seddon Diesel Vehicles Limited at June 30, 1976 and 1975. The operations of Seddon Diesel Vehicles Limited have been included in the Consolidated Statement of Income and Income Retained based on its results for the years ended June 30, 1976 and 1975 (see page 20 for details). Investments in co-dealerships are carried at cost.

By way of supplementary information (pages 17 through 20) comparative financial statements for 1976 and 1975 are presented to reflect the results of Canadian manufacturing and trading operations on a basis which the Company considers to be more informative as this information is not available from the consolidated accounts. The Canadian manufacturing and trading subsidiary, Pacific Truck & Trailer Manufacturing Ltd. is consolidated. The investments in the foreign subsidiary, Seddon Diesel Vehicles Limited and the finance subsidiaries Harcan Leasing Limited and International Harvester Credit Corporation of Canada Limited are carried in the Statement of Financial Condition at the equity in their net assets and their earnings have been included in the Statement of Income and Income Retained.

Summarized financial data is set out separately for the major wholly-owned subsidiaries which have not been consolidated — Seddon Diesel Vehicles Limited and International Harvester Credit Corporation of Canada Limited on page 20.

Foreign Exchange

Current assets and current liabilities in foreign currencies are translated into Canadian dollars at the year end exchange rates. Other foreign currency assets and liabilities are translated generally at the exchange rate prevailing at the time of acquisition. Revenues, costs and expenses are translated at the average exchange rates for the year, except that depreciation is translated at the exchange rates prevailing at the time the related assets were acquired. Gains or losses resulting from exchange rate fluctuations are credited or charged to income currently.

Inventory Valuation

Inventories are valued generally at the lower of cost or market. Cost is determined substantially on the basis of average cost for the year including the cost of opening inventory. Market is considered as replacement value which does not exceed net realizable value and, with respect to labour and overhead, is the cost considered attainable under normal operating conditions.

Depreciation and Amortization

Depreciation and amortization is generally computed on a straight-line basis over the useful lives of the various classes of properties.

Deferred Income Taxes

The Company and its subsidiaries recognize the tax effect of each item in the statement of income in the current period regardless of when the tax is paid. Taxes on amounts which affect financial and taxable income in different periods are reported as deferred income taxes.

Engineering and Research Expenditures

Expenditures for the development of new and improved products are charged to costs as incurred.

Auditors' Report

DELOITTE, HASKINS & SELLS

Offices across Canada and associated firms throughout the world Chartered Accountants

SIXTH FLOOR, FIDELITY EQUITABLE TRUST TOWER
ONE JAMES STREET SOUTH, HAMILTON, ONTARIO L8P 4R5 416-523-6770

To the Shareholders of
International Harvester Company of Canada, Limited:

We have examined the consolidated financial statements of International Harvester Company of Canada, Limited and subsidiaries as at October 31, 1976 and 1975 and for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements (pages 10 through 14) present fairly the financial position of International Harvester Company of Canada, Limited and subsidiaries as at October 31, 1976 and 1975 and the results of their operations and changes in their financial position for the years then ended, in accordance with generally accepted accounting principles applied on a consistent basis.

Our examination also included the accompanying partially consolidated financial statements as at October 31, 1976 and 1975 and for the years then ended, which are presented as supplementary information to be read in conjunction with the above mentioned consolidated financial statements.

In our opinion, these partially consolidated financial statements (pages 17 through 20) present fairly the financial position of the Company as at October 31, 1976 and 1975 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles, except that they are prepared on a partially consolidated basis, applied on a consistent basis.

November 30, 1976

Deloitte, Haskins & Sells

Financial Review

Basis of Review

The financial review presentation is based on the financial data shown as Supplementary Information on pages 17 through 20. This sets out separately the results of Canadian manufacturing and trading operations and presents a more informative report in line with the Summary of Accounting Policies — Basis of Consolidation on page 14. Separate data is displayed on page 20 for the major non-consolidated subsidiaries.

Sales

Sales of Canadian manufacturing and trading operations in 1976 were \$627,743,000 compared to \$627,723,000 in 1975. Domestic sales were 8.2% higher in 1976 than in 1975. The Trucks and Agricultural Equipment product groups increased significantly while Outdoor Power Products, Pay Line and Solar decreased. Canadian produced goods sold to export markets in 1976 were \$166,622,000, a decrease of 17.4% from 1975.

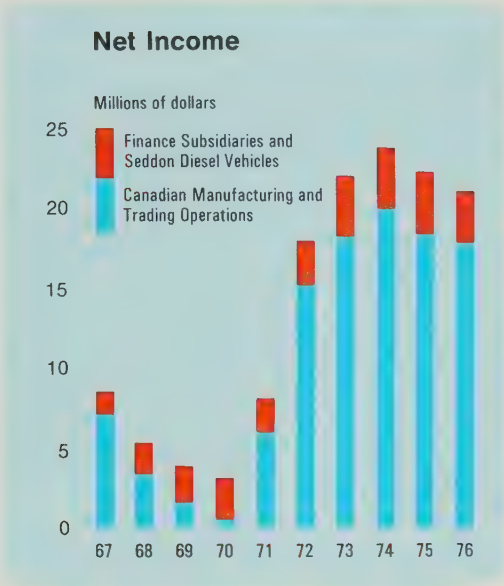
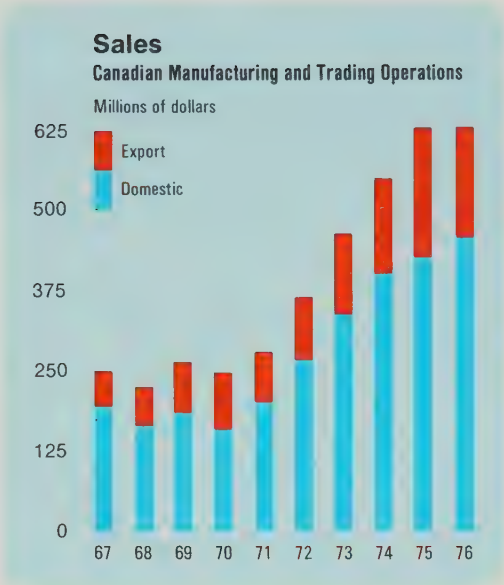
Net Income

Fully consolidated net income in 1976 was \$20,824,000 compared to \$22,109,000 in 1975, a decrease of 5.8%.

The income of the Canadian manufacturing and trading operations was \$17,827,000, a decrease of 2.6% from 1975. Costs and expenses increased faster than revenues resulting in a reduced return on sales of 2.8% compared to 2.9% in 1975. The restraints imposed under the anti-inflation program on prices and profits have prevented the Company from maintaining margins. Compliance measurements under the regulations combined with depressed market conditions in some areas have restricted price increases to the degree that the Company has not been able to fully recover increased costs in some product lines.

Earnings of our major finance subsidiary, International Harvester Credit Corporation of Canada Limited were \$5,344,000, an increase of 13.7% over 1975, the previous record year. This substantial increase resulted from a higher volume of business partially offset by higher interest rates in 1976 compared to 1975. In addition, an exchange gain of \$337,000 (net of deferred income taxes) was recorded on a forward contract purchased to retire a debt payable in U.S. funds in 1977.

The net losses of Seddon Diesel Vehicles Limited for the fiscal years 1976 and 1975 of \$2,388,000 and \$909,000 respectively have been charged against consolidated net income. Details of these losses are summarized on page 20. The exchange loss of \$943,000 in 1976 compared to an exchange loss of \$292,000 in 1975 resulted from the continued weakening trend in the value of the British pound in relation to the Canadian dollar throughout 1976. During the year, the shares of the Australian subsidiary of Atkinson Lorries (Holdings) Limited, a wholly owned subsidiary of Seddon Diesel Vehicles Limited were sold to International Harvester Australia Limited. A gain of approximately \$156,000 has been recognized on this transaction.



Financial Review (continued)

Inventories

Canadian inventories of finished goods, raw materials and supplies and work-in-process were \$105,494,000 in 1976 compared to \$106,446,000 in 1975, a decrease of 0.9%.

Inventories are summarized by major classifications as follows:

	1976 in thousands	1975 in thousands
Finished goods	\$ 64,628	\$ 64,446
Raw materials and supplies	30,829	30,380
Work-in-process	10,037	11,620
Total Inventories	<u>\$105,494</u>	<u>\$106,446</u>

Property, Plant and Equipment

Capital expenditures of the Canadian manufacturing and trading companies totalled \$9,593,000 for 1976 fiscal year as compared to \$6,303,000 for the previous year. Commitments on appropriations in progress at October 31, 1976 approximated \$6,178,000. The continuing success of our Company dictates a commitment to increased productivity. The Company's investment plans are dedicated to the modernization of facilities and subsequent improvement in overall productivity.

Property, plant and equipment by major classes are as follows:

	1976 in thousands	1975 in thousands
Buildings, machinery and equipment at cost:		
Manufacturing	\$57,199	\$51,929
Distribution	17,989	17,724
Other	563	518
	<u>75,751</u>	<u>70,171</u>
Less accumulated depreciation	<u>48,576</u>	<u>46,645</u>
	<u>27,175</u>	<u>23,526</u>
Tooling and pattern equipment at cost, less amortization	3,688	2,140
Land at cost	1,749	1,749
Net Property	<u>\$32,612</u>	<u>\$27,415</u>

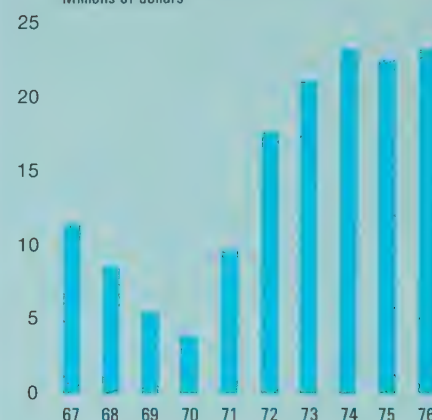
Employment

The Company's average employment in Canada in 1976 was 6,556 compared to 7,120 in 1975. Compensation paid to employees in 1976 was \$95,603,000 of which \$84,763,000 was paid for time worked and \$10,840,000 was paid for vacations and statutory holidays. In addition, approximately \$14,845,000 was paid for insurance, medical and pension plans and other fringe benefits.

Comparable 1975 compensation was \$92,553,000 of which \$82,527,000 was for time worked and \$10,026,000 was for vacations and statutory holidays. In addition, approximately \$15,300,000 was paid for fringe benefits in 1975.

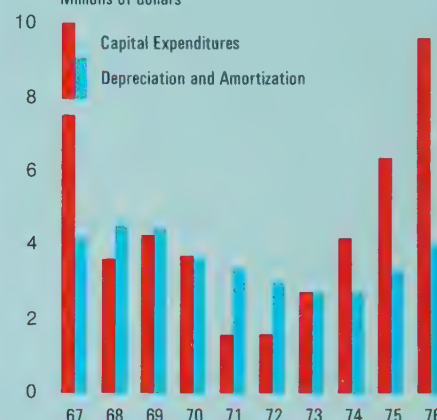
Working Capital Provided from Canadian Manufacturing and Trading Operations

Millions of dollars



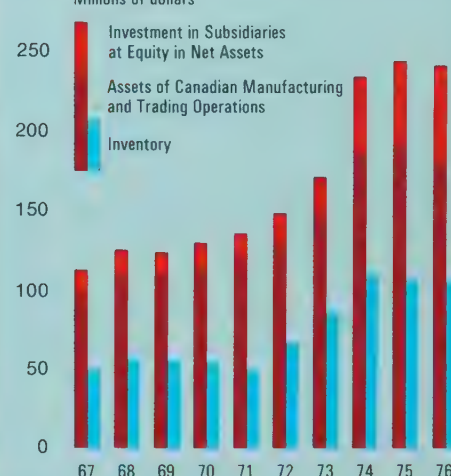
Capital Expenditures and Depreciation and Amortization Canadian Manufacturing and Trading Operations

Millions of dollars



Inventory and Assets

Millions of dollars



Supplementary Information

This presentation sets out separately the results of Canadian manufacturing and trading operations by showing the financial position and results of International Harvester Company of Canada, Limited and Pacific Truck & Trailer Manufacturing Ltd. on a consolidated basis. The investments in the foreign subsidiary, Seddon Diesel Vehicles Limited and in the finance subsidiaries, Harcan Leasing Limited and International Harvester Credit Corporation of Canada Limited are carried in the Statement of Financial Condition at the equity in their net assets and their earnings have been included in the Statement of Income and Income Retained. Summarized financial data is set out separately for the major wholly-owned subsidiaries that have not been consolidated — Seddon Diesel Vehicles Limited and International Harvester Credit Corporation of Canada Limited on page 20.



INTERNATIONAL HARVESTER COMPANY OF CANADA, LIMITED and Subsidiaries

(on a partially consolidated basis)

Statement of Income and Income Retained

For the Years ended October 31, 1976 and 1975

	1976 in thousands	1975 in thousands
Sales and Other Revenues		
Sales:		
Dealers and users in Canada	\$461,121	\$426,020
International Harvester Company	162,741	187,984
Other affiliated companies and jobbers	3,881	13,719
	<u>627,743</u>	<u>627,723</u>
Other income, less sundry deductions	2,548	(262)
Total Sales and Other Revenues	<u>630,291</u>	<u>627,461</u>
Costs and Expenses		
Cost of sales	538,710	537,598
Marketing and administrative expenses	44,105	40,443
Charges for financing services on wholesale notes sold to finance subsidiary	12,004	9,976
Interest expense (including long-term of — 1976, \$2,605 ; 1975, \$2,435)	4,820	6,026
Provision for income taxes:		
Current	10,610	14,324
Deferred	2,215	793
Total Costs and Expenses	<u>612,464</u>	<u>609,160</u>
Income — Canadian Manufacturing and Trading Operations	17,827	18,301
Income — Canadian Finance Subsidiaries	5,385	4,717
Income — Total Canadian Operations	23,212	23,018
Loss — Seddon Diesel Vehicles Limited	(2,388)	(909)
Net Income	20,824	22,109
Dividends Paid	11,700	14,600
Income Retained — for the year	9,124	7,509
— at beginning of the year	126,425	118,916
— at end of the year	<u>\$135,549</u>	<u>\$126,425</u>

The accompanying Summary of Accounting Policies, Notes 5, 6 and 7 and the Financial Review are an integral part of this statement.

Supplementary Information (continued)



INTERNATIONAL HARVESTER COMPANY OF CANADA, LIMITED and Subsidiaries
(on a partially consolidated basis)

Statement of Financial Condition

October 31, 1976 and 1975

	1976 in thousands	1975 in thousands
Assets		
Current Assets		
Cash	\$ 152	\$ 398
Accounts receivable — less allowances	25,770	35,235
Accounts receivable from affiliated companies	247	10,084
Notes and accounts receivable from finance subsidiaries	7,583	2,216
Deferred income taxes	951	1,805
Inventories (page 16)	105,494	106,446
Total Current Assets	140,197	156,184
Equity in Canadian Finance Subsidiaries	37,208	29,483
Equity in Seddon Diesel Vehicles Limited	19,584	21,973
Property, Plant and Equipment at cost, less depreciation and amortization (page 16)	32,612	27,415
Other Assets	10,584	8,051
Total Assets	<u>\$240,185</u>	<u>\$243,106</u>
Liabilities and Shareholders' Equity		
Current Liabilities		
Bank indebtedness	\$ 7,409	\$ 5,216
Notes payable — banks	9,500	32,150
Current maturities of long-term debt	4,036	1,035
Current invoices, payrolls and accruals	42,909	36,026
Accrued taxes	703	536
Accounts payable to affiliated companies	1,641	605
Total Current Liabilities	66,198	75,568
Long-term Debt	20,006	24,042
Deferred Income Taxes	3,432	2,071
Shareholders' Equity		
Capital stock — authorized, issued and fully paid — 150,000 common shares of \$100 par value	15,000	15,000
Income retained	135,549	126,425
Total Shareholders' Equity	150,549	141,425
Total Liabilities and Shareholders' Equity	<u>\$240,185</u>	<u>\$243,106</u>

Approved by the Board: W. N. Smith, *Director*
P. B. Carter, *Director*

The accompanying Summary of Accounting Policies, Notes 5, 6 and 7 and the Financial Review are an integral part of this statement.

Supplementary Information (continued)



INTERNATIONAL HARVESTER COMPANY OF CANADA, LIMITED and Subsidiaries
(on a partially consolidated basis)

Statement of Changes in Financial Position

For the Years ended October 31, 1976 and 1975

	1976 in thousands	1975* in thousands
Source of Working Capital		
Income — Canadian manufacturing and trading operations	\$ 17,827	\$ 18,301
Items not affecting working capital:		
Depreciation and amortization	4,022	3,277
Deferred income taxes	1,361	891
Other	111	111
Working Capital Provided from Canadian Manufacturing and Trading Operations	23,321	22,580
Property disposals	374	193
Increase in long-term debt	—	7,740
Other — net	—	6,811
Total Source	23,695	37,324
Application of Working Capital		
Capital expenditures	9,593	6,303
Decrease in long-term debt	4,036	—
Dividends paid	11,700	14,600
Purchase of shares of International Harvester Credit Corporation of Canada Limited	3,000	—
Other — net	1,983	—
Total Application	30,312	20,903
(Decrease) Increase in Working Capital	(6,617)	16,421
Working Capital — at beginning of the year	80,616	64,195
— at end of the year	\$ 73,999	\$ 80,616
Changes in Working Capital		
Cash	\$ (246)	\$ 292
Notes and accounts receivable	(13,935)	11,805
Deferred income taxes	(854)	98
Inventories	(952)	(2,645)
Bank indebtedness	(2,193)	711
Notes payable — banks	22,650	(1,600)
Current maturities of long-term debt	(3,001)	(1,000)
Current invoices, payrolls and accruals	(6,883)	1,739
Accrued taxes	(167)	4,949
Accounts payable to affiliated companies	(1,036)	2,072
(Decrease) Increase in Working Capital	\$ (6,617)	\$ 16,421

*The 1975 figures have been regrouped to reflect the Canadian manufacturing and trading operations separately.

The accompanying Summary of Accounting Policies, Notes 5, 6 and 7 and the Financial Review are an integral part of this statement.

Supplementary Information (continued)

Summarized Financial Data — Major Non-consolidated Subsidiaries

October 31, 1976 and 1975

	1976 in thousands	1975 in thousands
Seddon Diesel Vehicles Limited		
Net Sales	<u>\$ 85,165</u>	<u>\$ 84,514</u>
Net Effect on Consolidated Income (Loss)		
Seddon's net loss (includes unrealized exchange loss on translation of \$943,000 in 1976 and \$292,000 in 1975)	\$ (1,652)	\$ (362)
Consolidation adjustments	(736)	(547)
Net Effect on Consolidated Income (Loss)	<u>\$ (2,388)</u>	<u>\$ (909)</u>
Summary Statement of Financial Condition		
Assets		
Cash	\$ 7	\$ 8
Accounts and notes receivable — net	6,464	7,475
Inventories	15,766	26,708
Property, plant and equipment at cost, less depreciation	12,043	14,252
Other	7,462	6,531
Total Assets	<u>\$ 41,742</u>	<u>\$ 54,974</u>
Liabilities		
Bank indebtedness	\$ 5,001	\$ 8,954
Notes, accounts payable and accruals	12,599	19,170
Long-term debt	7,407	7,737
Deferred income taxes	3,513	3,857
Total Liabilities	<u>28,520</u>	<u>39,718</u>
Shareholders' Equity		
Capital stock	3,997	3,997
Income retained	9,225	11,259
Total Shareholders' Equity	<u>13,222</u>	<u>15,256</u>
Total Liabilities and Shareholders' Equity	<u>\$ 41,742</u>	<u>\$ 54,974</u>

International Harvester Credit Corporation of Canada Limited

Net Income (before consolidation adjustments)	<u>\$ 5,344</u>	<u>\$ 4,700</u>
Summary Statement of Financial Condition		
Assets		
Notes receivable — net	\$297,122	\$242,798
Deferred income taxes	593	1,128
Prepaid interest and other assets	4,046	1,520
Total Assets	<u>\$301,761</u>	<u>\$245,446</u>
Liabilities		
Notes payable within one year	\$130,800	\$108,562
Notes and accounts payable to parent company	7,598	1,953
Current maturities of long-term debt	13,051	7,475
Other current payables and accruals	6,925	5,094
Long-term debt	100,303	89,657
Deferred income taxes	6,311	3,626
Total Liabilities	<u>264,988</u>	<u>216,367</u>
Shareholders' Equity		
Capital stock	13,000	10,000
Income retained	23,773	19,079
Total Shareholders' Equity	<u>36,773</u>	<u>29,079</u>
Total Liabilities and Shareholders' Equity	<u>\$301,761</u>	<u>\$245,446</u>

Statistical Data

(fully consolidated basis) Dollar amounts in millions

	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967
SALES BY AREA OF FINAL SALE										
Canadian Operations										
Canada	\$463.2	426.5	401.4	340.7	269.4	204.1	161.6	187.0	170.7	194.8
United States	163.4	190.0	145.2	125.2	93.0	74.2	88.7	74.5	51.7	53.7
Europe and Africa	1.3	5.5	1.1	1.6	1.9	.6	.4	.3	.9	.8
Latin America	.9	1.6	1.3	.7	.9	.3	1.0	1.1	.7	.6
Pacific Area	1.0	5.9	1.0	1.0	1.2	1.7	.5	.6	.9	1.1
	629.8	629.5	550.0	469.2	366.4	280.9	252.2	263.5	224.9	251.0
Seddon Diesel Vehicles Limited	85.2	84.5	—	—	—	—	—	—	—	—
Total	\$715.0	714.0	550.0	469.2	366.4	280.9	252.2	263.5	224.9	251.0
NET INCOME										
Amount	\$ 20.8	22.1	23.6	21.8	17.8	8.1	3.1	3.9	5.3	8.5
Return on sales	2.91%	3.10	4.30	4.64	4.86	2.88	1.23	1.48	2.36	3.39
Return on shareholders' equity at beginning of the year	14.72%	16.51	19.38	19.78	17.68	8.54	3.36	4.28	6.06	10.29
DEPRECIATION AND AMORTIZATION	\$ 6.2	5.6	4.9	4.8	4.0	3.4	3.7	4.5	4.6	4.2
TAXES — FEDERAL, PROVINCIAL AND LOCAL	\$ 29.3	33.7	45.7	43.0	34.2	24.0	14.1	16.0	14.8	20.2
CAPITAL EXPENDITURES	\$ 10.8	10.8	20.0	8.5	6.1	3.1	3.8	4.3	3.7	7.6
SHAREHOLDERS' EQUITY AT END OF THE YEAR										
Capital stock	\$ 15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
Income retained	135.5	126.4	118.9	107.0	95.0	85.7	79.8	77.2	76.2	72.4
Total Shareholders' Equity	\$150.5	141.4	133.9	122.0	110.0	100.7	94.8	92.2	91.2	87.4
REPRESENTED BY										
Current assets	\$333.4	340.0	295.7	215.5	179.4	160.2	141.3	144.1	126.1	122.8
Less: Current liabilities	237.8	227.1	224.0	138.2	111.4	89.6	94.0	92.0	70.6	68.2
Working Capital	95.6	112.9	71.7	77.3	68.0	70.6	47.3	52.1	55.5	54.6
Net property	50.9	50.2	45.9	31.6	28.3	27.0	29.0	29.5	29.8	31.0
Notes receivable — long-term	122.5	88.9	79.5	63.3	53.0	39.5	44.5	35.2	30.6	20.5
Other assets	13.1	9.9	9.8	4.4	4.3	4.5	4.1	1.7	2.0	2.0
Total	\$282.1	261.9	206.9	176.6	153.6	141.6	124.9	118.5	117.9	108.1
Less:										
Long-term debt	120.3	114.0	71.7	54.6	43.5	40.4	29.5	26.0	26.1	19.9
Deferred income taxes	11.3	6.5	1.3	—	.1	.5	.6	.3	.6	.8
Total	131.6	120.5	73.0	54.6	43.6	40.9	30.1	26.3	26.7	20.7
Total Net Assets	\$150.5	141.4	133.9	122.0	110.0	100.7	94.8	92.2	91.2	87.4
NUMBER OF EMPLOYEES										
AVERAGE (CANADA)	6,556	7120	7144	6510	5667	4812	5828	6189	6363	7316

